

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
SALINA, KANSAS**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

For the Years Ended December 31, 2012, and 2011

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
SALINA, KANSAS**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Ottawa County, Kansas
Rural Water District No. 2
Salina, Kansas 67402

We have audited the accompanying financial statements of the business-type activities of Ottawa County Rural Water District No. 2, as of and for the years ended December 31, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ottawa County Rural Water District No. 2, as of December 31, 2012 and 2011 and the results of operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2-3 and budgetary comparison information on page 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Pottberg, Gassman & Hoffman, Chtd.

POTTBERG, GASSMAN & HOFFMAN, CHARTERED
Manhattan, Kansas
April 24, 2013

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
SALINA, KANSAS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Ottawa County Rural Water District No. 2's annual financial report, the District's management provides narrative discussion and analysis of the financial activities of the District for the year ended December 31, 2012. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

The attached financial statements present the assets and liabilities, revenues and expenses and changes in net position of the District on the accrual basis of accounting. The statement of cash flows reverses the accruals to show the affect of the annual transactions on the available cash balance. Both the financial statements and supplemental information are shown comparative to the prior year.

In 2012, the district added six units and lost two units, making a total of 863 units at year-end. In 2012 the annual usage was 72,054,000 gallons of water, which showed an annual loss of 11.50%. In 2011 the annual usage was 71,079,000 gallons of water, which showed an annual loss of 7.91%. Since we are a customer read district, the board has implemented a policy that a staff member will read all the meters once a year and whenever necessary to help maintain a reasonable yearly percentage loss. The district continually communicates with customers to keep the accounts receivable to a minimum.

The Business Manager prepared the 2012 annual budget, as required by the BYLAWS of the District (see Article 8, Powers and Duties of Directors, Paragraph G). The annual budget for 2012 was presented to the Board of Directors for approval. The Board took action and approved the Budget, stating the rates were sufficient for 2013. The District does not have a statutory requirement limiting expenses to those budgeted, but utilizes the budget to monitor the expenditures to keep them as close as possible to the budget.

In 2012, the Board of Directors refinanced the Series C, 2004 Revenue Bonds. The refinancing for \$760,000.00 saved the water district approximately \$98,431.67. The new revenue bonds are the Series 2012 and the money remaining after paying off the Series C, 2004 Revenue Bonds was deposited in a money market account at the Bennington State Bank, Salina, KS. Prior to the refinancing the money was in United Bank and Trust in Seneca KS. This money can only be used to develop a new well field.

The Water District's main water tower on Ohio Street needs major maintenance. Also discussed was the need for more water storage. The District's water well pumps are put on manual each year in order to keep up with the demand of water for customers. The Board of Directors stated it would be more feasible to construct a new pedestal water tower on Ohio Street than to spend the money for the repairs and the painting of the old water tower. The district has remaining bond funds in United Bank and Trust in Seneca that can only be used for a water tower. The District's attorney has contacted a land owner in regards to an easement for the new water tower. The land owner is negotiating the easement at the present time.

The Water District is in the process of securing easements for the new waterline from the new well fields. Concerning the proposed building plat directly north of the Water District's existing well field, Mr. Ralph Luther put it on hold because of personal health issues.

The District transfers \$10,000.00 each month into the Water District's savings account until it reaches a certain amount and then a Certificate of Deposit is purchased. This money is designated as improvements.

The GPS mapping was completed and delivered to the District by Kansas Rural Water Association

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
SALINA, KANSAS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

All the substantial interest statements were completed and returned to the district.

The water district has an emergency disaster plan and a conservation plan in effect.

Since there are four employees and one contract worker of the district that are related, all their invoices and requests for reimbursement statements are reviewed and signed by one of the Board members. Also, in the event a monthly meeting is not held, the bank account check register of the district is presented to the Board of Directors for approval. This shows all invoices and payroll that was paid and all monies deposited. Each month the reconciliation of the bank accounts and bank statements is reviewed and signed by the Chairman of the District. On the bank statement the Chairman is shown where the United States Treasury (for Federal, Social Security and Medicare) and the Kansas Department of Revenue is paid monthly for the withholding taxes. The checks have two signatures as required.

Should you have any questions concerning this report or any other water district matter, feel free to call 785.823.2093.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
STATEMENTS OF NET POSITION
DECEMBER 31,

ASSETS	<u>2012</u>	<u>2011</u>
Current Assets		
Cash in Bank	\$ 991,524	\$ 634,162
Accounts Receivable - Net	7,968	10,507
Inventory	26,792	16,450
Prepaid Expenses	3,987	-
Total Current Assets	<u>1,030,271</u>	<u>661,119</u>
Noncurrent Assets		
Construction Work in Progress	205,874	227,931
Capital Assets		
Engineering Costs	149,699	149,699
Office Equipment	26,699	26,699
Water Transmission and Distribution System	4,177,473	4,165,663
Water Wells and Easements	223,773	223,773
New Well Project	28,587	28,587
Accumulated Depreciation	<u>(2,090,473)</u>	<u>(1,972,135)</u>
Total Capital Assets	<u>2,721,632</u>	<u>2,850,217</u>
Certificate of Deposit - 2004 Bond Reserve	-	167,416
Certificate of Deposit - 2009 Bond Reserve	84,667	135,003
Certificate of Deposit - 2012 Bond Reserve	76,143	-
Certificates of Deposit - Easement Reserve	26,079	38,581
2004 Bond Proceeds	-	494,444
2009 Bond Proceeds	296,392	294,621
2012 Bond Proceeds	<u>497,723</u>	<u>-</u>
Total Noncurrent Assets	<u>3,702,636</u>	<u>3,980,282</u>
TOTAL ASSETS	<u>\$ 4,732,907</u>	<u>\$ 4,641,401</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts Payable	\$ 89,710	\$ 89,750
Accrued Interest Payable	6,863	17,733
Payroll Liabilities	2,051	1,559
Unearned Revenue	36,875	34,491
Bonds Payable - Current Portion	100,000	80,000
Easements Payable - Current Portion	<u>12,850</u>	<u>12,850</u>
Total Current Liabilities	<u>248,349</u>	<u>236,383</u>
Noncurrent Liabilities		
Bonds Payable - 2004 Bond Issue (net of amortized discount and current portion)	-	720,552
Bonds Payable - 2009 Bond Issue (net of amortized discount and current portion)	806,900	841,126
Bonds Payable - 2012 Bond Issue (net of amortized discount and current portion)	684,022	-
Easement Payable (net of current portion)	<u>25,700</u>	<u>38,550</u>
Total Noncurrent Liabilities	<u>1,516,622</u>	<u>1,600,228</u>
Total Liabilities	<u>1,764,971</u>	<u>1,836,611</u>
Net Position		
Net Investment in Capital Assets	1,092,160	1,157,139
Restricted 2004 Bond Reserve	-	78,000
Restricted 2009 Bond Reserve	78,563	78,563
Restricted 2012 Bond Reserve	76,000	-
Unrestricted	<u>1,721,213</u>	<u>1,491,088</u>
Total Net Position	<u>2,967,936</u>	<u>2,804,790</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 4,732,907</u>	<u>\$ 4,641,401</u>

The notes to the financial statements are an integral part of these statements.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31,

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Water Sales	\$ 620,324	\$ 547,625
OPERATING EXPENSES		
Accounting Fees	6,070	6,105
Attorney Fees	3,175	1,195
Chlorine Fees	7,557	4,781
Clean Drinking Water Fees	2,179	2,078
Contract Labor	64,890	63,355
Dues and Subscriptions	893	3,296
Fees and Permits	30	165
Insurance	13,856	15,459
Internet Fee	624	624
IRA Contributions	2,353	2,172
Lab Fees	793	-
Mileage	22,235	23,804
Miscellaneous	2,777	2,402
Office Supplies Expense	16,139	4,623
Payroll Taxes	6,504	6,118
Power	27,374	25,199
Professional Fees	6,916	31,677
Repairs and Maintenance	19,198	11,914
Salaries and Wages	85,023	79,971
Supplies Expense	2,304	8,513
Telephone	6,694	4,705
Water Protection Fees	2,325	2,217
TOTAL OPERATING EXPENSES	<u>299,909</u>	<u>300,373</u>
INCOME FROM OPERATIONS BEFORE DEPRECIATION	<u>320,415</u>	<u>247,252</u>
Depreciation	(118,339)	(116,657)
OPERATING INCOME (LOSS)	<u>202,076</u>	<u>130,595</u>
NON-OPERATING REVENUES AND EXPENSES		
Interest Income	23,158	24,466
Other Income	24,085	37,357
Other Expense	(28,179)	-
2012 Issuance Cost	(17,229)	-
Interest Expense	(70,765)	(74,731)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(68,930)</u>	<u>(12,908)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>133,146</u>	<u>117,687</u>
Capital Contributions	30,000	30,000
CHANGE IN NET POSITION	<u>163,146</u>	<u>147,687</u>
NET POSITION, BEGINNING	2,804,790	2,657,103
NET POSITION, ENDING	<u>\$ 2,967,936</u>	<u>\$ 2,804,790</u>

The notes to the financial statements are an integral part of these statements.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 625,247	\$ 508,763
Cash Payments to Suppliers for Goods and Services	(135,320)	(108,384)
Cash Payments to Employees and Professional		
Contractors for Services	(178,466)	(173,206)
Net Cash Provided (Used) by Operating Activities	<u>311,461</u>	<u>227,173</u>
CASH FLOWS FROM CAPITAL AND RELATED		
FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(17,934)	(214,119)
Principal Paid on Bonds	(80,000)	(215,000)
Principal Paid on Easement	(12,850)	51,400
Interest Paid on Bonds	(70,930)	(75,499)
Proceeds from Bond Issue	496,610	23,917
Discount on Bond	11,400	-
Issuance Costs of Bonds	(17,229)	-
Payment of 2004 Bond	(494,444)	-
Bond Reserve Decrease (Increase)	141,533	137,071
Easement Reserve Decrease (Increase)	12,502	(38,581)
Other Capital Activities	24,085	37,357
Capital Contributions	30,000	30,000
Net Cash Provided (Used) by Capital and Related		
Financing Activities	<u>22,743</u>	<u>(263,454)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income	<u>23,158</u>	<u>24,466</u>
Net Cash Provided (Used) by Investing Activities	<u>23,158</u>	<u>24,466</u>
Net Increase (Decrease) in Cash and Cash Equivalents	357,362	(11,815)
Cash and Cash Equivalents at January 1	634,162	645,977
Cash and Cash Equivalents at December 31	<u>\$ 991,524</u>	<u>\$ 634,162</u>

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Income from Operations (before depreciation)	\$ 320,415	\$ 247,252
Changes in Receivables	2,539	(3,786)
Changes in Inventory	(10,342)	1,396
Changes in Payables	452	17,387
Changes in Unearned Revenue	2,384	35,076
Change in Prepaid Expenses	(3,987)	-
Net Cash Provided by Operating Activities	<u>\$ 311,461</u>	<u>\$ 227,173</u>

The notes to the financial statements are an integral part of these statements.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
SALINA, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Rural Water District No. 2, Ottawa County, Kansas (District), was declared incorporated as a municipal Corporation by the Board of Commissioners of Ottawa County, Kansas. The board of directors for the district adopted bylaws at a meeting of the landowners of the district on June 11, 1979.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The water district is a governmental organization operated as a business (proprietary) type entity. The District's financial information is reported on the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when they are earned and expenses are recognized when they are incurred. The District performs proprietary activities and therefore is subject to all Governmental Accounting Standards Board (GASB) pronouncements (GASB 34 and 65 have been implemented) as well as Financial Accounting Standards Board (FASB) statements and interpretations, and Accounting Principles Board (APB) opinions that do not conflict with or contradict GASB pronouncements.

Operating revenues are those that are generated from primary operations. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations. All other expenses are reported as non-operating expenses, such as installation fees and reimbursement for benefit units.

Statements of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid investments including bank deposit accounts, money market accounts and certificates of deposit classified as current assets to be cash and cash equivalents. Certificates of deposit with maturities of longer than three months can still be used by the district to meet current liabilities if they wish to pay any applicable penalties.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Capital Assets

Capital assets purchased or built are capitalized at cost. Depreciation is recorded based on the estimated useful life of each asset using the straight-line method. The District's policy is to capitalize all assets with a cost of \$500 or more and a useful life exceeding one year. The estimated useful lives of assets range from 5 to 40 years.

Inventory

Inventory is stated at cost and consists of pipe, valves, meters, and other items needed to repair water lines.

Noncurrent Assets

Noncurrent assets primarily include construction in process, capital assets, and reserves for bonds and easements. The amounts placed in the reserve often exceed the amount legally required to be restricted as they include interest earned and other monies designated by the board to be set aside to meet future obligations. The amounts legally required to be restricted are included in the bond and easement payable footnotes.

Accounts Payable

Accounts payable consist of invoices received from vendors for services or products received during the period but not yet paid.

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
SALINA, KANSAS**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued and Adopted Accounting Pronouncements

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASBS No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB No. 65 provides guidance for reporting items previously reported as assets or liabilities as deferred outflows of resources (expenses) or deferred inflows of resources (revenues.) Also, with the exception of prepaid insurance costs, costs related to the issuance of debt will no longer be recorded as a deferred charge and amortized over the life of the debt; they should instead be recognized as an expense in the period incurred. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Early application is encouraged. Accounting changes to comply with this statement should be applied retroactively by restating financial statements for all periods presented. The District elected to early implement for these financial statements. The results of the retroactive restatement of the audited financial statements for the year ended December 31, 2011 issued May 3, 2012 and restated here are:

removal of amortized bond issuance costs, 2004 of \$11,571 and 2009 of \$14,971; reduction of unrestricted net position (net assets) of \$26,542; removal of amortization expense of \$6,578; and reduction of beginning net position (net assets) of \$26,283.

Taxes

The District is exempt from federal and state income taxes.

NOTE 2 – DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The District has no designated "peak periods." All deposits were legally secured at December 31, 2012 and 2011.

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
SALINA, KANSAS**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

At December 31, 2012 the District's carrying amount of deposits was \$1,972,528 and the bank balance was \$1,976,164. The bank balance at three of the four banks utilized by the District exceeded Federal Depository Insurance Corporation (FDIC) limits. Those balances in excess of FDIC limits were more than 5% of total bank balances at two of the three banks resulting in a concentration of credit risk per GASBS 40, paragraph 11 (*). Of the bank balance, \$859,470 was covered by federal depository insurance and \$1,069,762 was collateralized with securities held by the pledging financial institutions' agents in the District's name and \$46,932 was collateralized with securities held by the pledging financial institutions' agents in a third party name (**).

The following is a comparison of depository security with balances on deposit with the District's designated depositories at December 31, 2012:

	Demand Deposits on <u>12/31/2012</u>	Time Deposits on <u>12/31/2012</u>	FDIC <u>Coverage</u>	Pledged Securities	Unsecured Deposits
Bennington State Bank	\$631,583	\$448,917	\$250,000	830,500 *	-
Bank of Tescott	-	489,802	250,000	239,802 *	-
Great Plains FCU	-	109,469	109,469	-	-
United Bank & Trust	-	296,392	250,000	46,392 **	-

At December 31, 2011 the District's carrying amount of deposits was \$1,764,227 and the bank balance was \$1,765,948. The bank balance at two of the five banks utilized by the District exceeded Federal Depository Insurance Corporation (FDIC) limits. Those balances in excess of FDIC limits were more than 5% of total bank balances resulting in a concentration of credit risk per GASBS 40, paragraph 11 (*). Of the bank balance, \$887,215 was covered by federal depository insurance and \$339,668 was collateralized with securities held by the pledging financial institutions' agents in the District's name and \$539,065 was collateralized with securities held by the pledging financial institutions' agents in a third party name (^).

The following is a comparison of depository security with balances on deposit with the District's designated depositories at December 31, 2011:

	Demand Deposits on <u>12/31/2011</u>	Time Deposits on <u>12/31/2011</u>	FDIC <u>Coverage</u>	Pledged Securities	Unsecured Deposits
Bennington State Bank	\$83,388	\$82,578	\$165,966	-	-
Bank of Tescott	-	589,668	250,000	339,668*	-
Great Plains FCU	1,923	118,687	120,610	-	-
United Bank & Trust	789,065	-	250,000	539,065^	-
First Bank Kansas	-	100,639	100,639	-	-

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable are customer water bills that have been invoiced but remain unpaid. The balance is shown net of the allowance for doubtful accounts. Using past payment history and the aging report, the allowance as of December 31, 2012 and 2011 has been determined to be zero.

NOTE 4 – CAPITAL ASSETS

During 2004 the District's infrastructure assets were estimated using expenditures of prior years and are stated retrospectively. Capital assets purchased or built are capitalized at cost. The water distribution system, wells and related easements and engineering costs are being depreciated over 40 years using the straight-line method.

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
SALINA, KANSAS**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Capital Asset Activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Capital Acquisitions / (Depreciation)	(Sales) / Disposals	Ending Balance
Capital Assets not Being Depreciated:				
Construction in Progress	\$ 227,931	6,122	(28,179)	\$ 205,874
Capital Assets Being Depreciated:				
Engineering Costs	\$149,699	-	-	\$149,699
Office Equipment	26,699	-	-	26,699
Water Wells and Easements	223,773	-	-	223,773
Distribution System	4,194,250	11,810	-	4,206,060
Total Capital Assets Being Depreciated	4,594,421	11,810	-	4,606,231
Less Accumulated Depreciation For:				
Engineering Costs	(52,814)	(3,743)	-	(56,557)
Office Equipment	(25,368)	(290)	-	(25,658)
Water Wells and Easements	(37,027)	(5,211)	-	(42,238)
Distribution System	(1,856,926)	(109,094)	-	(1,966,020)
Total Accumulated Depreciation	(1,972,135)	(118,338)	-	(2,090,473)
Net Being Depreciated	2,622,286	(106,528)	-	2,515,758
Total Capital Assets	\$ 2,850,217	(100,406)	(28,179)	\$ 2,721,632

Capital Asset Activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Capital Acquisitions / (Depreciation)	(Sales) / Disposals	Ending Balance
Capital Assets not Being Depreciated:				
Construction in Progress	\$ 94,585	133,346	-	\$ 227,931
Capital Assets Being Depreciated:				
Engineering Costs	\$149,395	304	-	\$149,699
Office Equipment	25,247	1,452	-	26,699
Water Wells and Easements	168,436	55,337	-	223,773
Distribution System	4,170,570	23,680	-	4,194,250
Total Capital Assets Being Depreciated	4,513,648	80,773	-	4,594,421
Less Accumulated Depreciation For:				
Engineering Costs	(49,072)	(3,742)	-	(52,814)
Office Equipment	(25,048)	(320)	-	(25,368)
Water Wells and Easements	(33,150)	(3,877)	-	(37,027)
Distribution System	(1,748,207)	(108,719)	-	(1,856,926)
Total Accumulated Depreciation	(1,855,477)	(116,658)	-	(1,972,135)
Net Being Depreciated	2,658,171	(35,885)	-	2,622,286
Total Capital Assets	\$ 2,752,756	(29,763)	-	\$ 2,850,217

Depreciation expense for years ended December 31, 2012 and 2011 was \$118,339 and \$116,657 respectively.

NOTE 5 – UNEARNED REVENUE

Multiple District customers have paid in advance for water usage. These amounts have not been earned and would be refundable if water usage discontinues. The balance of these customer credits was \$36,875 at December 31, 2012 and \$34,491 at December 31, 2011.

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
SALINA, KANSAS**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - COMPENSATED ABSENCES POLICY

The District provides vacation leave for the Business Manager. There is no written policy for the carry forward of unused time nor for the payment of unused time at termination or retirement. Therefore no accrual has been made.

NOTE 7 – BONDS PAYABLE

On August 1, 2004, the district issued \$780,000 in Kansas Rural Water Finance Authority Revenue Bonds, Series C, 2004 with effective interest rates ranging from 3.85% to 5.00%. The purpose of the bond issue was to construct a second main under I-70 (completed in 2005), develop a new well (completed in 2007) and construct a new chlorination building as well as remodel the existing chlorination building. Work has not yet begun on the chlorination buildings. Interest payments were due semi-annually on April 1 and October 1. Principal payments were due starting on October 1, 2012 and maturing in 2024. This bond was paid-off in September 2012 with the issuance of the Series 2012 bond noted below.

On December 1, 2009, the district issued \$885,000 in Kansas Rural Water Finance Authority Revenue Bonds, Series B, 2009 with effective interest rates ranging from 1.75% to 4.75%. The purpose of the bond issue was to purchase a water tower. Interest payments are due semi-annually on June 1 and December 1. Principal payments were due starting on December 1, 2012 and maturing in 2029.

On September 11, 2012, the district issued \$760,000 in Kansas Rural Water Finance Authority Revenue Bonds, Series 2012 with effective interest rates ranging from 1.00% to 2.75%. The new bond issue paid-off the outstanding 2004 bond issue and will be used for the future construction and remodeling of the chlorination buildings. Interest payments are due semi-annually on April 1 and October 1. Principal payments are due starting on October 1, 2013 and maturing in 2023.

2004 Bonds Payable Information:

Issuance costs of \$18,150 were paid and expensed at the time this revenue bond was issued. The bonds were issued at a discount of \$14,820 which is amortized and charged to interest expense over the life of the bonds using the straight-line method. Interest expense for 2012 and 2011 was \$9,448 and \$741 respectively. A bond reserve account of \$78,000 was required to be maintained. When this bond was paid off in 2012, \$76,000 was transferred to a certificate of deposit for the 2012 Bond reserve and the remaining balance was moved into the operating funds of the District.

2009 Bonds Payable Information:

Issuance costs of \$16,712 were paid and expensed at the time this revenue bond was issued. The bonds were issued at a discount of \$15,487 which is amortized and charged to interest expense over the life of the bonds using the straight-line method. Interest expense for 2012 and 2011 was \$774 each. A bond reserve account of \$78,563 is required to be maintained. \$84,667 is segregated as a Certificate of Deposit at Bennington State Bank as of December 31, 2012.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2013	35,000	34,850	69,850
2014	35,000	34,045	69,045
2015	35,000	33,135	68,135
2016	40,000	32,085	72,085
2017	40,000	30,725	70,725
2018-2022	230,000	129,325	359,325
2023-2027	295,000	75,505	370,505
2028-2029	145,000	10,450	155,450
Totals	<u>\$855,000</u>	<u>\$380,120</u>	<u>\$1,235,120</u>

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
SALINA, KANSAS**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – BONDS PAYABLE (CONTINUED)

2012 Bonds Payable Information:

Issuance costs of \$17,229 were paid and expensed at the time this revenue bond was issued. The bonds were issued at a discount of \$11,400 which is amortized and charged to interest over the life of the bonds using the straight-line method. Interest expense for 2012 was \$422. A bond reserve account of \$76,000 is required to be maintained. \$76,143 is segregated as a Certificate of Deposit at the Bank of Tescott.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2013	65,000	15,133	80,133
2014	65,000	13,762	78,762
2015	65,000	13,112	78,112
2016	65,000	12,463	77,463
2017	70,000	11,488	81,488
2018-2022	365,000	37,163	402,163
2023	65,000	1,787	66,787
Totals	<u>\$760,000</u>	<u>\$104,908</u>	<u>\$864,908</u>

NOTE 8 – EASEMENT PAYABLE

In March 2010, the District approved the payment for an easement in the amount of \$51,400 to establish a water source for the District. The payments are to be paid in four equal amounts of \$12,850 starting in January 2012. \$26,079 is segregated in two Certificates of Deposit at Great Plains Federal Credit Union for the payment of this easement.

NOTE 9 – DEBT SERVICE RATIO

The bond issue covenants require the District to maintain a debt service ratio of at least 1.25.

Debt Service Ratio Calculation for the year ending:	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Change in Net Position	\$163,146	\$147,687
Interest Expense	70,765	74,731
Depreciation	118,339	116,657
Less Capital Contributions	(30,000)	(30,000)
Total Revenue Available for Debt Service	<u>\$322,250</u>	<u>\$309,075</u>
Debt Service Payments	\$150,930	\$290,499
Debt Service Ratio	<u>2.14</u>	<u>1.06</u>

NOTE 10 – LONG TERM DEBT SCHEDULE

The following schedule shows the changes in long-term debt and related maturities as of December 31, 2012.

<u>Revenue Bonds</u>	<u>Date Issued</u>	<u>Original Amount</u>	<u>Outstanding 01-01-12</u>	<u>Principal Payments</u>	<u>Outstanding 12-31-12</u>	<u>Interest Paid In 2012</u>
2004	08-01-04	780,000	780,000	50,000	-	35,480
2009	12-01-09	885,000	885,000	30,000	855,000	35,450
2012	09-11-12	<u>760,000</u>	-	-	<u>760,000</u>	-
Total Indebtedness		<u>\$ 2,425,000</u>	<u>\$ 1,665,000</u>	<u>\$ 80,000</u>	<u>\$ 1,615,000</u>	<u>\$ 70,930</u>

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
SALINA, KANSAS**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 – LONG TERM DEBT SCHEDULE (CONTINUED)

The following schedule shows the changes in long-term debt and related maturities as of December 31, 2011.

<u>Revenue Bonds</u>	<u>Date Issued</u>	<u>Original Amount</u>	<u>Outstanding 01-01-11</u>	<u>Principal Payments</u>	<u>Outstanding 12-31-11</u>	<u>Interest Paid In 2011</u>
2001	12-01-01	\$1,485,000	\$215,000	\$215,000	\$ -	\$4,569
2004	08-01-04	780,000	780,000	-	780,000	35,480
2009	12-01-09	<u>885,000</u>	<u>885,000</u>	<u>-</u>	<u>885,000</u>	<u>35,450</u>
Total Indebtedness		<u>\$ 3,150,000</u>	<u>\$ 1,880,000</u>	<u>\$ 215,000</u>	<u>\$ 1,665,000</u>	<u>\$ 75,499</u>

NOTE 11 – BUDGETS AND BUDGETARY ACCOUNTING

Per K.S.A. 82a-628, the Board is required to annually prepare an estimated budget for the coming year. The Board approves a budget each year, which is used by management to internally monitor the District's expenditures and is presented as supplementary information.

NOTE 12 - RETIREMENT PLAN

The District provides a Simple IRA for the full time employees as retirement compensation. The District contributes 3% of the eligible employee wages to these IRAs. In 2012, the District contributed \$2,353 and in 2011, \$2,172 to the retirement plan. The IRAs are with American Funds.

NOTE 13 - LITIGATION

There were no legal actions involving the District as of December 31, 2012.

NOTE 14 – RELATED PARTIES

All the members of the board of directors and all employees are water district customers. The only material transactions were water purchases consummated on the same terms as all other water customers. All were current at year-end.

NOTE 15 – RISK MANAGEMENT

Ottawa County Rural Water District No. 2 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To insure against risk of these types of losses, the District has purchased commercial insurance coverage from EMC Companies through Anderson Peck Agency Inc. in Topeka, Kansas. Settled claims resulting from these risks have not exceeded commercial coverage.

NOTE 16 – SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to December 31, 2012 to determine the need for any adjustments to and/or disclosures within the audited financial statements. Management has performed their analysis through April 24, 2013, which is the date at which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
BUDGET REPORT - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
OPERATING REVENUES			
Water Revenues	<u>\$ 523,000</u>	<u>\$ 625,247</u>	<u>\$ 102,247</u>
OPERATING EXPENSES			
Chlorine Fee	7,000	7,557	557
Clean Drinking Water Fee	2,100	2,179	79
Contract Wages	66,000	64,890	(1,110)
Dues and Subscriptions	750	893	143
Fees and Permits	500	30	(470)
Insurance	13,000	13,856	856
Internet Fee	624	624	-
IRA Contributions	2,200	2,353	153
Lab Fees	3,200	793	(2,407)
Mileage	22,000	22,235	235
Miscellaneous	12,650	2,817	(9,833)
Office Supplies Expense	5,000	16,139	11,139
Payroll Taxes	6,200	6,012	(188)
Power	26,000	27,374	1,374
Professional Fees	10,000	20,148	10,148
Repairs and Maintenance	12,000	29,540	17,540
Salaries & Wages	82,000	85,023	3,023
Supplies Expense	10,000	2,304	(7,696)
Telephone	5,000	6,694	1,694
Water Protection Fee	2,240	2,325	85
TOTAL OPERATING EXPENDITURES	<u>288,464</u>	<u>313,786</u>	<u>25,322</u>
DEBT RETIREMENT:			
Bond Principal Paid	80,000	80,000	-
Bond Interest	70,930	70,930	-
Easement Principal Paid	-	12,850	12,850
TOTAL EXPENDITURES	<u>439,394</u>	<u>477,566</u>	<u>38,172</u>
OTHER INCOME (EXPENSES)			
New Benefit Units	25,000	30,000	5,000
Interest Income	25,000	23,158	(1,842)
Decrease in Reserves	-	154,035	154,035
Proceeds from Bond Issue	-	490,781	490,781
Payment of 2004 Bond	-	(494,444)	(494,444)
Other Income and Expense	10,400	24,085	13,685
Capital Improvements	-	(17,934)	(17,934)
TOTAL OTHER INCOME (EXPENSE)	<u>60,400</u>	<u>209,681</u>	<u>149,281</u>
INCREASE (DECREASE) IN CASH	<u>\$ 144,006</u>	<u>\$ 357,362</u>	<u>\$ 213,356</u>